# Cover for: Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform Productivity Commission Study Report, November 2016 Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform

Productivity Commission Study Report

Commonwealth of Australia 2016

**ISBN 978-1-74037-600-6 (PDF)  
ISBN 978-1-74037-601-3 (Print)**



Except for the Commonwealth Coat of Arms and content supplied by third parties, this copyright work is licensed under a Creative Commons Attribution 3.0 Australia licence. To view a copy of this licence, visit [<http://creativecommons.org/licenses/by/3.0/au>](http://creativecommons.org/licenses/by/3.0/au). In essence, you are free to copy, communicate and adapt the work, as long as you attribute the work to the Productivity Commission (but not in any way that suggests the Commission endorses you or your use) and abide by the other licence terms.

Use of the Commonwealth Coat of Arms

For terms of use of the Coat of Arms visit the ‘[It’s an Honour](http://www.itsanhonour.gov.au/coat-arms/index.cfm)’ website: <http://www.itsanhonour.gov.au>

Third party copyright

Wherever a third party holds copyright in this material, the copyright remains with that party. Their permission may be required to use the material, please contact them directly.

Attribution

This work should be attributed as follows, *Source: Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform, Study Report*.

If you have adapted, modified or transformed this work in anyway, please use the following, *Source: based on Productivity Commission data, Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform, Study Report*.

An appropriate reference for this publication is:

Productivity Commission 2016, *Introducing Competition and Informed User Choice into Human Services: Identifying Sectors for Reform*, Study Report, Canberra.

Publications enquiries

Media and Publications, phone: (03) 9653 2244 or email: maps@pc.gov.au

|  |
| --- |
| The Productivity Commission |
| The Productivity Commission is the Australian Government’s independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.  The Commission’s independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.  Further information on the Productivity Commission can be obtained from the Commission’s website ([www.pc.gov.au](http://www.pc.gov.au/)). |
|  |

# Foreword

The Australian Government asked the Commission to investigate whether the efficiency and effectiveness of human services could be improved by introducing greater competition, contestability and informed user choice. The inquiry is to be undertaken in two parts. The first part is the preparation of a study report to identify services that are best suited to reform by introducing greater competition, contestability or informed user choice. The publication of this study report marks the conclusion of the first part of the inquiry and sets out the Commission’s view on the priority areas where reform could offer the greatest improvements in individual wellbeing and community welfare.

For the services identified as best suited, the second stage of the inquiry is to make reform recommendations that help to ensure all Australians have timely and affordable access to high-quality services that are appropriate to their needs, and that those services are delivered in a cost-effective manner. The final inquiry report will be submitted to the Australian Government in October 2017.

The Productivity Commission acknowledges the valuable contribution of all those who contributed to this study through consultations and written submissions.

|  |  |
| --- | --- |
| Stephen King Commissioner | Sean Innis Special Adviser |

# Terms of reference

**PRODUCTIVITY COMMISSION INQUIRY INTO INTRODUCING COMPETITION AND INFORMED USER CHOICE INTO HUMAN SERVICES**

I, Scott Morrison, Treasurer, pursuant to Parts 2, 3 and 4 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission undertake an inquiry into Australia's human services, including health, education, and community services, with a focus on innovative ways to improve outcomes through introducing the principles of competition and informed user choice whilst maintaining or improving quality of service.

### Background

The Australian Government is committed to working in partnership with State and Territory Governments and non-government service providers to ensure that all Australians can access timely, affordable and high‑quality human services, which are appropriate to their needs, and are delivered in a cost-effective manner.

The human services sector plays a vital role in the wellbeing of the Australian population. It covers a diverse range of services, including health, education and community services, for example job services, social housing, prisons, aged care and disability services. There are some features that are common across the range of services and models of service provision, while other features are unique in nature. Complexity arises from differences in the characteristics of the services, and of the individuals receiving the services, the objectives sought, and the jurisdiction and market in which the services are being supplied.

While governments have made progress in introducing competition, contestability and user choice to human services provision, the efficiency and effectiveness of the delivery of services within the sector varies significantly between jurisdictions. Service delivery frameworks in the human services sector that are inefficient and/or ineffective can result in significant costs to the economy and individuals, including poorer outcomes and reduced productivity.

Australia’s human services sector is facing significant challenges, including increasing demand for services due to the ageing population, the effect of technology and cost increases associated with new and more complex service provision demands. Finding innovative ways to improve the efficiency and cost effectiveness of the human services sector, and to target services to those most in need, will help ensure that high quality service provision is affordable for all Australians and leads to improved outcomes for the economy and individuals.

### Scope of the inquiry

The Commission is requested to examine the application of competition and user choice to services within the human services sector and develop policy options to improve outcomes. These options should lead to improvement in the sector’s efficiency and effectiveness and help to ensure all Australians can access timely, affordable and high quality services, which are appropriate to their needs, and are delivered in a cost-effective manner.

The Commission is to undertake the inquiry in two stages.

1. The first stage will deliver an initial study report identifying services within the human services sector that are best suited to the introduction of greater competition, contestability and user choice. The Commission will examine:
   1. the current level, nature and future trends in demand for each major area of service delivery;
   2. the current supply arrangements and future trends, including the scope for diversity in provision and informed user choice, alternative pricing and funding models, and the potential for contestability in supply by government, not-for-profit and private sector providers;
   3. the effectiveness of previous reforms intended to introduce greater competition and user choice, and the pathway taken to achieve those reforms, through investigating:
      1. case studies of existing practices and trials in Australian jurisdictions; and
      2. international examples of best practice.
2. In the second stage, the Commission will undertake a more extensive examination and provide an inquiry report making recommendations on how to introduce greater competition, contestability and user choice to the services that were identified above.
   1. In providing its recommendations, the Commission’s report should identify the steps required to implement recommended reforms.
   2. In developing policy options to introduce principles of competition and informed user choice in the provision of human services, the Commission will have particular regard, where relevant, to:
      1. the roles and responsibilities of consumers within the human service sector, and the service or services being considered;
      2. the factors affecting consumer use of services and preferences for different models of service delivery, noting the particular challenges facing consumers with complex and chronic needs and/or reduced capacity to make informed choices;
      3. the role of the government generally, and as a commissioner, provider and regulator, in the delivery of human services;
      4. the role of government agencies in designing policy, commissioning and, in some cases, delivering human services in a client-centred way that encourages innovation, focusses on outcomes and builds efficiency and collaboration;
      5. the role of private sector and not-for-profit providers;
      6. the benefits and costs of applying competition principles in the provision of human services, including improving competitive neutrality between government, private and not-for-profit service providers;
      7. how best to promote innovation and improvements in the quality, range and funding of human services;
      8. the challenges facing the provision of human services in rural and remote areas, small regional cities and emerging markets;
      9. the need to improve Indigenous outcomes; and
      10. the development of systems that allow the performance of any new arrangements to be evaluated rigorously and to encourage continuous learning.

### Process

The Commission is to undertake appropriate public consultation processes including holding hearings, inviting public submissions, and releasing issues papers to the public.

The Commission will publish the initial study report within six months of receiving these Terms of Reference. The report will set out the findings from case studies and international experiences and identify which services within the human services sector are best suited to the application of competition, contestability and informed user choice principles.

The final inquiry report, including policy recommendations and a path and process to ensure sustainable, efficient and effective reform, will be provided within 18 months of receiving these Terms of Reference.

S. MORRISON  
Treasurer

**[Received 29 April, 2016]**

# Contents

Foreword iii

Terms of reference iv

Contents vii

Abbreviations ix

Overview 1

1 The Commission’s approach 33

1.1 What has the Commission been asked to do? 33

1.2 Roles for government in the provision of human services 35

1.3 Competition, contestability and informed user choice 38

1.4 The Commission’s framework 44

1.5 Services identified as best suited to reform 48

2 Trends and drivers 51

2.1 A snapshot of human services 51

2.2 Trends and drivers affecting human services 56

3 Social housing 69

3.1 The social housing system 69

3.2 Scope to improve outcomes 71

3.3 Factors influencing the potential benefits of reform 77

3.4 The potential costs of reforms 81

4 Public hospital services 83

4.1 Defining public hospital services 83

4.2 Scope to improve outcomes 84

4.3 Factors influencing the potential benefits of reform 90

4.4 The potential costs of reform 99

5 End-of-life care 103

5.1 Scope to improve outcomes 104

5.2 Factors influencing the potential benefits of reform 109

5.3 Introducing greater user choice 112

6 Public dental services 115

6.1 Public dental services in Australia 115

6.2 Scope to improve outcomes 116

6.3 Factors influencing the potential benefits of reform 123

6.4 The potential costs of reform 127

7 Human services in remote Indigenous communities 131

7.1 Remote communities and services 131

7.2 Scope to improve outcomes 135

7.3 Factors influencing the potential benefits of reform 138

7.4 A way forward 139

8 Commissioning family and community services 145

8.1 Services to support individuals and their families 145

8.2 Scope to improve outcomes 148

8.3 Factors influencing the potential benefits of reform 151

8.4 Increasing the benefits of contestability 153

A Public consultation 161

References 179

# Abbreviations

|  |  |
| --- | --- |
| ABS | Australian Bureau of Statistics |
| ACCHO | Aboriginal Community Controlled Health Organisation |
| ACNC | Australian Charities and Not‑for‑profits Commission |
| AIHW | Australian Institute of Health and Welfare |
| CAPDS | Child and Adult Public Dental Schedule |
| CDBS | Child Dental Benefits Schedule |
| CRA | Commonwealth Rent Assistance |
| CSIRO | Commonwealth Scientific and Industrial Research Organisation |
| DHSV | Dental Health Services Victoria |
| DSS | Department of Social Services |
| GP | General Practitioner |
| IHPA | Independent Hospital Pricing Authority |
| MBS | Medicare Benefits Schedule |
| NDIA | National Disability Insurance Agency |
| NDIS | National Disability Insurance Scheme |
| NSQHSS | National Safety and Quality Health Service Standards |
| PCOC | Palliative Care Outcomes Collaboration |
| VET | Vocational education and training |